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The Operation and Effect
of the International
Boycott Provisions of the
Internal Revenue Code

SECOND ANNUAL REPORT

Department of the Treasury
December 1980

The Operation and Effect of the
International Boycott Provisions
of the Internal Revenue Code

Second Annual Report

Department of the Treasury
December 1980



THE SECRETARY OF THE TREASURY
WASHINGTON

4 DEC 1980

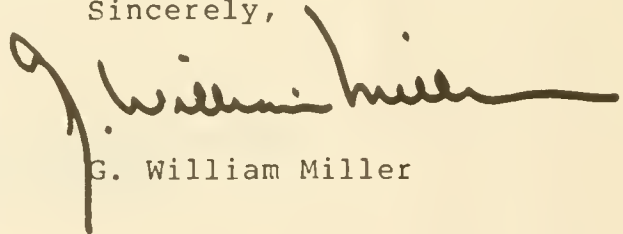
Dear Chairman Long:

Section 1067 of Public Law 94-455, the "Tax Reform Act of 1976," provides that for each calendar year "the Secretary shall transmit a report to the Committee on Ways and Means of the House of Representatives and to the Committee on Finance of the Senate" setting forth an analysis of the international boycott provisions of the Internal Revenue Code.

Pursuant to that section, I hereby submit the second report entitled, "The Operation and Effect of the International Boycott Provisions on the Internal Revenue Code".

I am sending a similar letter to Representative Al Ullman, Chairman of the Committee on Ways and Means.

Sincerely,



G. William Miller

The Honorable
Russell B. Long, Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Enclosure



THE SECRETARY OF THE TREASURY
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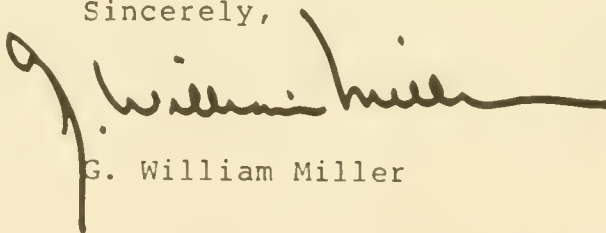
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Washington, D.C. 20515

Enclosure

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CHAPTER 1

INTRODUCTION AND SUMMARY

This Report is the second in a series on the operation of the international boycott provisions of the Internal Revenue Code. 1/ The statistical information in this report is based on information from 2,864 Forms 5713, "International Boycott Report," 2/ filed for accounting periods ending during 1977.

The Tax Reform Act of 1976 added several provisions to the Internal Revenue Code denying certain tax benefits to taxpayers who participate in or cooperate with an international boycott. The tax benefits affected by the boycott provisions are (1) the foreign tax credit, (2) the deferral of tax on the earnings of foreign subsidiaries, and (3) the deferral of tax on the earnings of Domestic International Sales Corporations. According to the General Explanation of the Tax Reform Act of 1976 3/, "Congress believes that these three tax benefits... should not be made available with respect to operations in connection with which there has been an agreement to participate in or cooperate with an international boycott."

The international boycott provisions allow a choice between two methods for computing the amount of tax benefits lost - the "specifically attributable income and taxes" method and the "international boycott factor" method. Under the specifically attributable income and taxes method, the benefits of the foreign tax credit are denied by reducing the amount of taxes eligible for the credit. Under the international boycott factor method, the benefits of the foreign tax credit are denied by reducing the otherwise allowable credit. The benefits of DISC and deferral are denied under both methods of computation by requiring a deemed distribution of earnings to the shareholders of the DISC or controlled foreign corporation. The international boycott provisions are described in Chapter 2.

1/ The Export Administration Reports published by the Commerce Department include material on the operation of the boycott provisions of the Export Administration Act of 1969 as amended. The most recent report covering the second and third quarters of 1979 was the final semiannual report. Subsequent reports will be issued annually.

2/ See Appendix for Form 5713.

3/ Prepared by the staff of the Joint Committee on Taxation.

TABLE 1

Revenue Estimates and Projections,
International Boycott Provisions 1/
(Thousands of dollars)

Year	: Calendar Year : Tax Liabilities	: Fiscal Year : Receipts <u>2/</u>
1976	445 <u>3/</u>	— <u>3/</u>
1977	2,880	1,740
1978	3,850	3,320
1979	4,220	4,020
1980	4,430	4,320
1981	4,650	4,540
1982	4,880	4,770
1983	5,120	5,010
1984	5,380	5,260
1985	5,650	5,520
1986	5,930	5,800

Office of the Secretary of the Treasury
Office of Tax Analysis

- 1/ The 1976 and 1977 figures are estimated from International Boycott Reports. All other figures are projections. All figures are based on corporate income tax rates of 48 percent for 1976 - 78 and 46 percent for 1979 and subsequent years.
- 2/ Calculated on the basis of normal relationships between calendar year corporate tax liabilities and fiscal year receipts.
- 3/ Reflects the November 4, 1976 effective date for the international boycott provisions.

TABLE 2

Estimated Revenue Effect* of the International
Boycott Provisions - 1977

Denial of Foreign Tax Credit (52% of \$1,410,000)	\$ 734,00
Denial of DISC Benefits (48% of \$1,368,000)	657,000
Denial of Deferral (48% of \$2,613,000)	1,254,000
TOTAL	<hr/> \$2,645,000

Office of the Secretary
Office of Tax Analysis

* The revenue effect was estimated as 52 percent of the change in the foreign tax credit (creditable taxes for persons using the specifically attributable income and taxes method) plus 48 percent of the deemed distributions of DISCs and controlled foreign corporations. The percentage used for the foreign tax credit estimate assumes that both taxable income and the foreign tax credit were reduced by the full amount of the change. The deemed distributions of DISCs and controlled foreign corporations were assumed to increase taxable income by the full amount of the distribution. Since these assumptions do not apply in certain cases (e.g., taxpayers with excess foreign taxes or negative taxable income) these estimates slightly overstate the actual revenue effect of the international boycott provisions.

Table 1 presents estimates of the revenue effect of the international boycott provisions for calendar and fiscal years. The sharp rise in the first few years is primarily the result of the effective dates of these provisions. The boycott provisions do not apply to participation in or cooperation with an international boycott before November 4, 1976. In addition, the boycott provisions do not apply to operations that were carried out in accordance with the terms of a binding contract entered into before September 2, 1976, until after December 31, 1977.

Table 2 shows that the total increase in tax liability attributable to the international boycott provisions for persons with accounting periods ending in 1977 is estimated at \$2,645,000. Chapter 3 provides more detail on the tax benefits lost as well as information on the number and type of boycott requests received and agreements entered into.

CHAPTER 2

PROVISIONS AND IMPLEMENTATION

Provisions

The international boycott provisions of the Tax Reform Act of 1976 deny to all persons who boycott the benefits of the foreign tax credit, deferral of taxation on the earnings of foreign subsidiaries, and DISC to the extent these tax benefits are attributable to operations of that person (or its affiliates) in connection with which there was an agreement to participate in or cooperate with an international boycott.

The benefits of DISC and deferral are denied to the taxpayer by requiring a deemed distribution of earnings to the shareholders of the DISC or controlled foreign corporation. If the taxpayer computes the loss of tax benefits using the international boycott factor method (described below), the benefits of the foreign tax credit are denied by reducing the otherwise allowable foreign tax credit to which the taxpayer would be entitled under Sections 901, 902 and 960 of the Internal Revenue Code, after applying the limitations, if applicable, of Sections 904 and 907. If the taxpayer computes the loss of tax benefits by determining the income and taxes specifically attributable to boycott operations, the amount of taxes paid or accrued that would otherwise qualify for the credit is reduced before the application of the limitations of Sections 904 and 907. Amounts which are denied the foreign tax credit under this provision may not be carried back or forward as foreign tax credits, but may be deducted in computing taxable income.

The loss of deferral benefits is accomplished by treating as Subpart F income the earnings attributable to operations in which there is boycott participation. Thus, deferral benefits are lost only with respect to earnings of controlled foreign corporations (any foreign corporation of which more than 50 percent of the voting power is owned by United States shareholders). Each United States shareholder of the controlled foreign corporation (that is, each United States person owning, or treated under the applicable attribution rules as owning, at least 10 percent of the voting power of a corporation) includes in income, under the subpart F provisions, its pro rata portion of the earnings of the controlled foreign corporation attributable to operations in which there is boycott participation, whether or not the shareholder and the controlled foreign corporation are members of the same controlled group of corporations.

The denial of DISC benefits is accomplished by treating as a deemed distribution by a DISC to its shareholders the earnings of the DISC attributable to operations in which there is boycott participation. The deemed distribution is similar to other deemed distributions from a DISC to its shareholders. Thus, the amount deemed distributed is, for purposes of computing DISC earnings and profits, treated as being part of the previously taxed income account.

A person participates in or cooperates with an international boycott if the person agrees, as a condition of doing business directly or indirectly within a country or with the government, a company, or a national of a country (1) to refrain from doing business with or in a country which is the object of an international boycott or with the government, companies, or nationals of that country; (2) to refrain from doing business with any United States person engaged in trade within another country which is the object of an international boycott or with the government, companies, or nationals of that country; (3) to refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion; or (4) to refrain from employing individuals of a particular nationality, race, or religion. A person also participates in or cooperates with an international boycott if the person agrees, as a condition of the sale of a product to the government, a company, or a national of a country to refrain from shipping or insuring products on a carrier owned, leased, or operated by a person who does not participate in or cooperate with an international boycott. A person is not considered to have participated in or cooperated with an international boycott unless he agrees to such participation or cooperation. The agreement need not be in writing; there may be an implied agreement. The agreement may be with respect to any type of business (including manufacturing, banking and service businesses).

A person is permitted to agree to comply with certain laws without being treated as agreeing to participate in or cooperate with an international boycott. Thus, person may agree to meet requirements imposed by a foreign country with respect to an international boycott if a U.S. law, executive order, or regulation sanctions that participation or cooperation. Also, a person may agree to comply with a prohibition on the importation of goods produced in whole or in part in any boycotted country and to comply with a prohibition imposed by a

country on the exportation of products obtained in that country to any boycotted country. However, a person may not agree to refrain from importing from or exporting to or from a particular country products which are, or which contain components which are, made by a company on a boycott list.

If a person, or a member of a controlled group (within the meaning of Section 993(a)(3)) which includes that person, participates in or cooperates with an international boycott in a country, that person or group is presumed to have participated in or cooperated with that boycott with respect to all operations in all countries which require participation in or cooperation with that international boycott. However, a person may establish that he has, or related persons have, conducted clearly separate and identifiable operations in that country or another country with respect to which there is no participation in or cooperation with that boycott. Where the person involved is a foreign corporation, its United States shareholders (within the meaning of Section 951(b)) may establish that the foreign corporation conducts clearly separate and identifiable operations with respect to which there is no participation in or cooperation with the boycott.

Where there are not continuous business activities within a country, separate and identifiable operations can include separate export or import transactions. Where there are continuous business activities within a country, each separate business activity (taking into account basic differences in the types of any products sold or services offered, clear separation of the management of the activities, and so forth) may represent a separate and identifiable operation. If a person is able to establish clearly separate and identifiable operations, he may then establish that with respect to certain operations there is no participation in or cooperation with that international boycott. The burden of proof is upon the taxpayer to establish that an operation is clearly separate and identifiable and that there is no participation in or cooperation with an international boycott in connection with that operation.

The presumption of boycott participation or cooperation extends beyond members of a controlled group of corporations in certain situations. If a person (e.g., an individual or a corporation) controls a corporation and the corporation participates in or cooperates with an international boycott, then the controlling person is presumed to have participated in or cooperated with that boycott. Additionally, if the controlling person participates in or cooperates with an international

boycott, the controlled corporation is presumed to have participated in or cooperated with that international boycott. Control for this purpose has the same meaning as it does in Section 304(c); that is, a person is considered to control a corporation if, after application of the appropriate attribution of stock ownership rules, the person owns at least 50 percent of stock of the corporation. Thus, the presumption applies in the case of noncorporate shareholders owning at least 50 percent of a corporation's stock, and in the case of corporate shareholders owning only 50 percent of a corporation's stock, even though in both cases the shareholders are not members of the same controlled group as the corporations in which they own the stock interest. As discussed above, however, the presumption of boycott participation or cooperation may be rebutted by establishing clearly separate and identifiable operations with respect to which there is no boycott participation.

The loss of tax benefits may be computed by the "international boycott factor" method or by the "specifically attributable income and taxes" method. A taxpayer using the first method multiplies the tax benefits to which he would otherwise be entitled by an "international boycott factor" and forfeits the tax benefits represented by that product. The international boycott factor is a fraction. Generally, the numerator of the fraction reflects all purchases, sales, and payroll of the person applying the fraction in countries associated in carrying out the international boycott, exclusive of those operations for which the presumption of participation or cooperation has been rebutted. The denominator reflects the person's purchases, sales, and payroll in all countries other than the United States. If the person applying the international boycott factor is a member of a controlled group of corporations, the numerator and denominator reflect the total purchases, sales and payroll of the controlled group.

A person who chooses to determine its loss of tax benefits by applying the specifically attributable income and taxes method is required to demonstrate the foreign taxes paid and income earned attributable to specific operations by analyzing the profit and loss data of each separate and identifiable operation. The election to use the international boycott factor or the specifically attributable income and taxes method is an annual election.

The international boycott provisions are generally effective for operations after November 3, 1976. In addition, operations carried out in accordance with the terms of a

binding contract entered into before September 2, 1976, do not constitute participation in or cooperation with an international boycott until after December 31, 1977. Therefore, the purchases, sales, and payroll attributable to such operations before January 1, 1978 are not reflected in the numerator of the international boycott factor.

Computations for both the specifically attributable income and taxes method and the boycott factor method reflect the full taxable year. A separate adjustment is made to reflect the effective date of the boycott provisions for taxable years which include November 3, 1976.

Implementation

The Treasury Department has issued several sets of guidelines consisting of questions and answers relating to the international boycott provisions. The current guidelines, released January 20, 1978, generally supersede the earlier sets of guidelines issued November 4, 1976, December 30, 1976, and August 12, 1977. The current guidelines are generally retroactive to November 3, 1976. However, several exceptions to this effective date allow affected persons to rely on previous guidelines in certain situations. Additional guidelines were published November 19, 1979.

Proposed regulations setting forth the computation of the international boycott factor were published in the Federal Register on March 1, 1977.

The international boycott provisions require the Secretary of the Treasury to publish a list, which is to be updated quarterly, of those countries which may require participation in or cooperation with an international boycott. The first list, published on November 3, 1976, listed 14 countries. The list was published without change until the list effective April 1, 1980 which omitted Egypt for the first time. The remaining countries are shown in figure 1.

The Internal Revenue Service has established a special international boycott examination program. As of June 30, 1980, audits of 715 returns involving international boycott issues had been completed. These audits resulted in changes totaling less than \$10,000.

The IRS has also established a procedure so that taxpayers conducting business with a foreign country will be able to obtain a determination as to whether their operations constitute an international boycott agreement. This procedure is the subject of Revenue Procedure 77-9, 77-1 C.B. 542 issued by the Internal Revenue Service on February 3, 1977.

FIGURE 1

Countries which require or may require participation in or cooperation with an international boycott.

1. Bahrain
2. Iraq
3. Jordan
4. Kuwait
5. Lebanon
6. Libya
7. Oman
8. Qatar
9. Saudi Arabia
10. Syria
11. United Arab Emirates
12. Yemen Arab Republic
13. Yemen, Peoples Democratic Republic of

CHAPTER 3

STATISTICAL INFORMATION

The data in this chapter are derived from 2,864 Forms 5712, "International Boycott Report," filed for accounting periods ending in 1977. These reports were required from any person who:

1. had operations; or
2. was a member of a controlled group, a member of which had operations; or
3. was a United States shareholder of a foreign corporation that had operations; or
4. was a partner in a partnership that had operations; or
5. was treated under Section 671 as the owner of a trust that had operations

in or related to a boycotting country (or with the government, a company, or a national of a boycotting country). Non-United States persons did not have reportable activities unless they claimed a foreign tax credit under Section 901 or owned stock in a DISC. The mere existence of reportable activity does not in any way imply that a person has participated in or cooperated with an international boycott. Only 256 of the 2,864 persons filing boycott reports reported participation in or cooperation with an international boycott.

One hundred persons 4/, all corporations, reported a reduction in tax benefits due to the international boycott provisions. The international boycott factor method of computing loss of tax benefits was used by 44 of these 100 corporations. These 44 corporations reported a reduction in foreign tax credits of about \$322,000 to \$619,261,000. This represents less than 0.05 percent of the foreign tax credit claimed by these corporations. Includable income of controlled foreign corporations under Subpart F was increased by \$912,000 to \$31,873,000 (a 2.9 percent increase). Deemed

4/ Controlled groups were consolidated and counted as one person.

distributions from DISCs were increased about \$494,000 to \$19,624,000 (a 2.5 percent increase). The remaining 56 corporations, using the specifically attributable income and taxes method (Section 999(c)(2)), reported a reduction in creditable foreign taxes of \$1,098,000; an increase in Subpart F income of \$1,701,000; and deemed distributions from a DISC of \$874,000. Since persons using the specifically attributable income and taxes method report only the amount of benefits lost, the total benefits claimed by these persons are not available.

Table 3 presents the income, assets and selected foreign characteristics of persons filing boycott reports by type of person and size of assets of corporations. The income in column 2 for corporations (including DISCs) is taxable income (or loss) before net operating loss and special deductions. The amount for individuals is adjusted gross income; for partnerships, ordinary income; and for estates and trusts, total income. End of year total assets are shown in column 3 for corporations and partnerships. Columns 4, 5, and 6 indicate the number of "yes" answers to questions 6(d), 6(b), and 6(c), respectively, of the Form 5713. Thus, 1084 persons reported that they claimed a foreign tax credit, 729 persons reported that they were United States shareholders (Section 951(b)) of a controlled foreign corporations (Section 957(a)) which had reportable operations (under Section 990(a)), and 915 persons reported owning stock in a DISC. Corporations (except DISC's) account for more than 98 percent of the income and 99 percent of the assets shown in this table.

The 2,118 corporations filing Form 5713 for accounting periods ending in 1977 represent only 1 percent of all U.S. corporations. However, their assets of slightly more than \$2 trillion were more than 48 percent of the assets of all corporations. 5/

Table 4 summarizes requests to participate in or cooperate with an international boycott by type of request and by country of operation. The five types of requests are those listed in Section 999(b)(3). The countries are from the Treasury list of countries boycotting Israel. The data in this table (and Tables 5 and 6) are based on responses to

5/ Internal Revenue Service, Preliminary Report, Statistics of Income - 1976, Corporation Income Tax Returns, Table 1, page 5. This report covers accounting periods ending July 1976 through June 1977.

TABLE 3

Income, Assets and Foreign Characteristics by Type of Person
Filing Boycott Reports and Size of Total Assets of Corporations, 1977

(Money Amounts in Millions of Dollars)

Type of Person and Size of Total Assets of Corporations	Number of Boycott Reports	Income (less) Deficit) 1/	Total Assets	Number of Persons Claiming a Foreign Tax Credit	Number of Persons that are Shareholders of Controlled Foreign Corporations	Number of Persons that are Shareholders of DISCs
	(1)	(2)	(3)	(4)	(5)	(6)
All persons, total	2,864	133,423	2,041,791	1,084	729	915
Corporations (except DISCs), total	2,118	131,192	2,031,390	944	642	854
Assets zero or not reported	34	38	--	10	3	7
\$1 under \$10,000,000	749	256	2,181	83	51	147
\$10,000,000 under \$100,000,000	537	2,636	21,288	239	152	256
\$100,000,000 under \$250,000,000	218	3,835	36,096	142	95	108
\$250,000,000 under \$500,000,000	152	5,910	54,371	114	74	91
\$500,000,000 under \$1,000,000,000	125	7,048	88,740	94	78	84
\$1,000,000,000 or more	303	111,467	1,828,726	262	189	161
DISCs	403	1,415	7,077	11	8	25
Individuals	196	26	--	120	60	26
Partnerships	117	787	3,324	--	6	3
Estates and trusts	30	3	--	9	12	7
Office of the Secretary of the Treasury Office of Tax Analysis						

1/ Taxable income for corporations (including DISCs); adjusted gross income for individuals; ordinary income for partnerships; total income for estates and trusts.

2/ Frequency not shown in order to avoid disclosure.

TABLE 4

Types of Boycott Requests 1/ by Country, 1977

Country	Number of		Requests to Participate in or Cooperate with an International Boycott		Requests				
	Persons with Operations (1)	Persons Receiving Requests (2)	Total (3)	Type 1 Requests (4)	Type 2 Requests (5)	Type 3 and 4 Requests (6)	Type 5 Requests (7)		
All countries, total	1,498	488	9,184	2,761	940	162	5,721		
Bahrain	609	93	607	314	2/	2/	253		
Egypt	801	121	494	143	29	6	317		
Iraq	647	191	1,292	446	173	30	643		
Jordan	575	75	228	46	2/	2/	156		
Kuwait	865	170	1,040	349	93	4	594		
Lebanon	591	66	369	54	114	—	201		
Libya	588	131	583	117	36	—	418		
Oman	498	58	346	35	26	67	218		
Qatar	490	59	176	45	12	—	119		
Saudi Arabia	1,127	250	2,294	576	144	22	1,552		
Syria	502	87	459	279	12	14	154		
United Arab Emirates	766	144	1,004	257	233	4	510		
Yemen Arab Republic	210	16	63	2/	2/	—	52		
Republic of Yemen	190	11	23	2/	2/	—	15		
All other countries	211	58	206	83	2/	2/	119		

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1/ The type of requests defined below are based on Section 999(b) (3) and correspond to the answers to question 12 of the Form 5712. Persons reporting these requests were asked as a condition of doing business directly or indirectly within a country or with the government, a company or a national of a country to:

- Type 1 Refrain from doing business with or in a country which is the object of the boycott or with the government, companies, or nationals of that country.
- Type 2 Refrain from doing business with any United States person engaged in trade in a country which is the object of the boycott or with the government, companies, or nationals of that country.
- Type 3 Refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion.
- Type 4 Refrain from employing individuals of a particular nationality, race or religion.
- Type 5 As a condition of the sale of a product to the government, a company or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased or operated by a person who does not participate in or cooperate with an international boycott.

2/ Frequency not shown in order to avoid disclosure.

question 12 of the Form 5713. The number of persons in column 2 is less than the number of Forms 5713 in column 1 of Table 1 because controlled groups of corporations (which may have filed multiple boycott reports) were counted as one person. Columns 1 and 2 are not additive because a given person (or controlled group) may have had operations in more than one country or receive requests from more than one country. The number of requests rose 45 percent from 6,335 in 1976, but the number of requests involving operations in or related to Saudi Arabia dropped by 44 percent. As a result, the percentage of requests involving Saudi Arabia dropped from 66 percent in 1976 to 25 percent in 1977 with three other countries accounting for more than 10 percent each. About 58 percent of all requests were type 5 requests. Persons receiving this type of request were asked:

As a condition of the sale of a product to the government, a company or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased or operated by a person who does not participate in or cooperate with an international boycott.

Table 5 provides information on agreements to participate in or cooperate with an international boycott by country of operation. The pattern is similar to that in Table 4. Although 1,498 persons had operations in or relating to boycotting countries, only 210 agreed to participate in or cooperate with an international boycott. These 210 persons reported 3,039 agreements, more than double the number for 1976. About two-thirds of the agreements reported were type 5.

Table 6 summarizes the operations of corporations filing boycott reports by country of operation and industry of the person filing the report. The industry shown is not necessarily the industry of the operation in that country. For example, the corporation filing the return might be engaged in petroleum refining while the operation reported for a particular country might be engaged in mining or transportation. Also, persons reporting multiple operations in a country are counted only once per country. The average corporation has operations in at least 6 of the 13 countries.

TABLE 5

Types of Boycott Agreements 1/ by Country, 1977

Country	Number of : Persons :		Agreements to Participate :		Type 1 :		Type 2 :		Type 3 and 4 :		Type 5 :	
	Operations :	Persons :	Agreeing :	Total :	Agreements :	Agreements :	Agreements :	Agreements :	Agreements :	Agreements :	Agreements :	Agreements :
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
All countries, total	1,498	210	3,939	1,043	229	27	2,640					
Bahrain	609	39	427	268	2/	2/	134					
Egypt	801	40	91	2/	2/	2/	63					
Iraq	647	71	494	103	34	6	351					
Jordan	575	33	92	19	12	—	61					
Kuwait	865	67	636	158	58	—	420					
Lebanon	591	36	101	24	5	—	72					
Libya	588	52	331	32	7	6	286					
Oman	498	30	182	16	2/	2/	154					
Qatar	490	24	84	17	3	—	64					
Saudi Arabia	1,127	111	954	207	62	6	679					
Syria	502	32	133	60	5	4	64					
United Arab Emirates	766	54	282	67	2/	2/	202					
Yemen Arab Republic	210	10	42	5	—	—	37					
Republic of Yemen	190	6	11	2/	—	—	2/					
All other countries	211	21	79	39	2/	—	2/					

Office of the Secretary of the Treasury
Office of Tax Analysis

1/ The types of agreements defined below are based on section 999(b) (3) and correspond to the answers to question 12 of the Form 511². Persons reporting these agreements agreed as a condition of doing business directly or indirectly within a country or with the government, a company or a national of a country to:

Type Definition

- 1 Refrain from doing business with or in a country which is the object of the boycott or with the government, companies, or nationals of that country.
- 2 Refrain from doing business with any United States person engaged in trade in a country which is the object of the boycott or with the government, companies, or nationals of that country.
- 3 Refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion.
- 4 Refrain from employing individuals of a particular nationality, race, or religion.
- 5 As a condition of the sale of a product to the government, a company or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased or operated by a person who does not participate in or cooperate with an international boycott.

2/ Frequency not shown in order to avoid disclosure.

TABLE 6

Number of Corporations 1/ with Operations in or Related to a Boycotting Country Filing Boycott Reports by Industry and Country of Operation, 1977

	All Countries	Bahrain	Egypt	Iraq	Jordan	Kuwait	Lebanon	Libya	Oman	Qatar	Saudia Arabia	Syria	United Arab Emirates	Yemen Republic	All of Others
All Industries	1,498	609	801	647	575	865	591	588	498	490	1,127	502	766	210	211
Agriculture, forestry, fishing	5	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/	2/
Mining	83	14	46	13	5	23	5	31	19	20	36	12	45	3	6
Oil and gas	75	14	43	11	4	22	5	29	18	20	32	11	43	3	15
Construction	72	4	15	10	4	13	3	12	6	10	55	4	22	2/	2/
Manufacturing	796	361	436	385	333	496	354	342	257	294	583	307	423	121	109
Chemicals	120	57	77	63	66	73	66	47	41	49	79	56	68	23	19
Petroleum	28	7	8	8	2/	11	5	9	5	9	14	5	12	--	2/
Fabricated metal products	147	49	62	55	45	80	45	50	32	42	102	31	52	10	8
Machinery, except electrical	167	62	85	88	54	99	60	73	42	51	116	65	75	27	24
Electrical equipment	129	43	63	51	47	83	49	41	37	39	91	43	59	20	21
Motor vehicles	27	10	15	16	11	15	15	15	7	10	17	17	13	2/	14
Transportation equipment	30	11	14	9	12	18	10	9	9	7	21	9	14	2/	2/
Transportation, communica- tion, and public utilities	77	28	40	20	17	36	22	25	23	22	55	18	43	11	6
Wholesale trade	510	193	229	193	166	260	170	177	158	123	343	147	242	58	65
Machinery	148	66	58	62	34	63	36	51	53	33	81	39	73	15	18
Motor vehicles & transportation	34	13	21	22	18	21	17	12	9	10	28	20	17	4	9
Chemicals	54	22	28	25	23	31	23	21	19	17	34	24	24	7	8
Petroleum	31	12	12	12	10	19	8	16	10	13	22	9	19	4	7
Retail trade	18	4	3	5	5	7	6	4	4	5	12	3	4	3	2/
Finance, insurance, and real estate	133	68	72	56	66	84	66	54	56	45	100	53	76	30	19
Banking	82	46	58	40	44	60	50	38	39	35	69	35	53	22	18
Services	239	65	109	53	68	98	54	61	43	50	181	38	85	25	18

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Office of Tax Analysis

1/ Corporations which were members of a controlled group were combined and counted as one corporation.

2/ Detail not shown in order to avoid disclosure.

TABLE 7

Number of Corporations with Operations in or Related to a Boycotting
Country and Number of Requests and Agreements, 1977

	: Number of Cor- : porations with : : Operations : : (1) :	: Number of Corpor- : ations Receiving : Requests : (2) :	: Col 2 as : : a Percent : : of Col 1 : : (3) :	: Number of : : Persons : : Agreeing : : (4) :	: Col 4 as : : a Percent : : of Col 2 : : (5) :	: Number : : of : : Requests : : (6) :	: Number : : of : : Agreements : : (7) :	: Col 7 as a : Percent : of Col 6 : (8) :
All countries	1,498	488	32.6	178	36.4	9,184	3,939	42.9
Bahrain	609	101	16.6	39	38.6	607	427	70.3
Egypt	801	149	18.6	42	28.2	494	91	18.4
Iraq	647	228	35.2	79	34.6	1,292	494	38.2
Jordan	575	85	14.8	38	44.7	228	92	40.4
Kuwait	865	200	23.1	74	37.0	1,040	636	61.2
Lebanon	591	71	12.0	37	52.1	369	101	27.4
Libya	588	153	26.0	56	36.6	583	331	56.8
Oman	498	63	12.7	32	50.8	346	182	52.6
Qatar	490	61	12.4	25	41.0	176	84	47.7
Saudi Arabia	1,127	287	25.5	116	40.4	2,294	954	41.6
Syria	502	101	20.1	34	33.7	459	133	29.0
United Arab Emirates	766	165	21.5	56	33.9	1,004	282	28.1
Yemen Arab Republic	210	19	9.0	12	63.2	63	42	66.7
Republic of Yemen	190	11	5.8	6	54.5	23	11	47.8
All other countries	344	82	23.8	29	35.4	206	79	38.3

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Table 7 measures the extent of and accomodation to the various countries' boycott efforts. Column 1 shows the number of corporations with operations in each country. Column 2 shows the number of corporations receiving requests and column 3 shows the percentage of corporations with operations in a country receiving requests from that country. Column 4 shows the number of corporations agreeing to participate in or cooperate with an international boycott, and column 5 shows the percentage of corporations receiving requests who agreed to participate. Columns 6 and 7 show the number of requests and agreements and column 8 shows the percentage of requests which resulted in agreements.

Appendix--Form 5713 and Instructions

International Boycott Report

For taxable year beginning, 19.....
end ending, 19.....
▶ Controlled groups, see specific instructions.

To be Filed
in Duplicate
(See Instruction B)

Name _____ Taxpayer identifying number _____

Number and street _____

City or town, State and ZIP code _____

Address of Service Center where your tax return is filed _____

Type of person filing this form (check one):

☐ Individual ☐ Partnership ☐ Corporation ☐ Trust ☐ Estate ☐ Other

1 If an individual, enter adjusted gross income from your tax return (see instructions)

2 Partnerships and corporations:

(a) If a partnership.—Enter the name and taxpayer identifying number of each partner.

(b) If a corporation.—Enter the name and employer identification number of all members of the controlled group (as defined in section 993(a)(3)). If a consolidated return was filed, do not list members included in the consolidated return; instead, attach a copy of Form 851. List all other members of the controlled group not included in the consolidated return.

If you list any corporations below, or if Form 851 is filed, you must designate a "common taxable year" and enter the name and employer identification number in line 4(b) of the corporation whose taxable year has been so designated.

Name	Taxpayer identifying number
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

If necessary, attach additional sheets and check this box ☐

(c) Enter principal business activity code and description (see instructions)	Code	Description
(d) DISCs.—Enter principal product or service code and description (see instructions)	_____	_____

3 Partnerships.—The following information must be submitted by each partnership filing Form 5713:

(a) Enter total assets of the partnership (Form 1065, page 1)
(b) Enter ordinary income of the partnership (Form 1065, line 26)

4 Corporations.—The following information must be submitted by every corporation filing Form 5713:

(a) Type of form filed (Form 1120, 1120F, 1120L, 1120M, etc.)
(b) Common taxable year election (see instructions)—
(1) Name of corporation ▶ _____
(2) Employer identification number
(3) Common taxable year beginning, 19..... and ending, 19.....
(c) Corporations filing this form enter—
(1) Total assets (see instructions)
(2) Taxable income before net operating loss and special deductions (see instructions)

5 Estate or trust.—Enter total income (Form 1041, line 9)

6 Enter the total amount (before reduction for boycott participation or cooperation) of the following tax benefits (see instructions):

(a) Foreign tax credit
(b) Deferral of earnings of controlled foreign corporations
(c) Deferral of DISC income

Under penalties of perjury, I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

Signature ▶ _____ Date ▶ _____

Title ▶ _____

9 Non-listed countries boycotting Israel.—Did you have operations in any non-listed country which you know or have reason to know requires participation in or cooperation with an international boycott directed against Israel? . . .

Yes	No
-----	----

If "Yes," enter the country(ies), taxpayer identifying number of person(s) having operations, the principal business activity code, a description of the principal business activity; and if you are a DISC, enter the product code. If necessary, attach additional sheets using the exact format and check this box ☐

Name of country (1)	Taxpayer identifying number of person(s) having operations (2)	Principal business activity		DISC's only—Enter product code (5)
		Code (3)	Description (4)	
(a)				
(b)				
(c)				
(d)				
(e)				
(f)				
(g)				
(h)				

10 Boycotts other than the boycott of Israel.—Did you have operations in any other country which you know or have reason to know requires participation in or cooperation with an international boycott other than the boycott of Israel? .

Yes	No
-----	----

If "Yes," enter the country(ies), taxpayer identifying number of person(s) having operations, the principal business activity code, a description of the principal business activity; and if you are a DISC, enter the product code. If necessary, attach additional sheets using the exact format and check this box ☐

Name of country (1)	Taxpayer identifying number of person(s) having operations (2)	Principal business activity		DISC's only—Enter product code (5)
		Code (3)	Description (4)	
(a)				
(b)				
(c)				
(d)				
(e)				
(f)				
(g)				
(h)				

11 Were you requested to participate in or cooperate with an international boycott?

Yes	No
-----	----

If "Yes," attach a copy (in English) of any and all such requests received during your taxable year. If the request was in a form other than a written request, attach a separate sheet explaining the nature and form of any and all such requests. (See Instructions.)

12 Did you, in fact, participate in or cooperate with an international boycott?

Yes	No
-----	----

If "Yes," attach a copy (in English) of any and all boycott clauses agreed to, and attach a general statement of the agreement. If the agreement was in a form other than a written agreement, attach a separate sheet explaining the nature and form of any and all such agreements. (See Instructions.)

Note: If the answer to either question 11 or 12 is "Yes," you must complete the rest of Form 5713. If you answered "Yes" to question 12, you must complete Schedules A, B, or C (Form 5713).

Part II Requests for and Acts of Participation in or Cooperation with an International Boycott**13 (a)** Did you receive requests to enter into, or, in fact, enter into any agreement:

Type of participation or cooperation	Requests		Agreements	
	Yes	No	Yes	No
(1) As a condition of doing business directly or indirectly within a country or with the government, a company, or a national of a country to—				
(i) Refrain from doing business with or in a country which is the object of an international boycott or with the government, companies or nationals of that country?				
(ii) Refrain from doing business with any United States person engaged in trade in a country which is the object of an international boycott or with the government, companies, or nationals of that country?				
(iii) Refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion?				
(iv) Refrain from employing individuals of a particular nationality, race, or religion?				
(2) As a condition of the sale of a product to the government, a company, or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased or operated by a person who does not participate in or cooperate with an international boycott?				

(b) Requests and agreements.—If the answer to any part of 13(a) is "Yes," indicate below: the country, the taxpayer identifying number, principal business activity code, description of the principal business activity, the number and the number code indicating the type of participation or cooperation requested or agreed to. Also, if you are a DISC, enter the product code in column (5). (See Instructions). If necessary, attach additional sheets using the exact format and check this box ☐

Name of country (1)	Taxpayer identifying number of person receiving the request or having the agreement (2)	Principal business activity		DISCs only— Enter product code (5)	Type of cooperation or participation			
					Requested		Agreed	
		Code (3)	Description (4)		Number (6)	Code (7)	Number (8)	Code (9)
(a)								
(b)								
(c)								
(d)								
(e)								
(f)								
(g)								
(h)								
(i)								
(j)								
(k)								
(l)								
(m)								
(n)								
(o)								
(p)								
(q)								

Instructions for Form 5713 (Revised Oct. 1979) International Boycott Report

(References are to the Internal Revenue Code.)

Reporting Operations, Boycott Requests and Boycott Compliance.—Generally, persons having operations in or related to boycotting countries are required to report those operations, the receipt of boycott requests, and boycott agreements on Form 5713.

Tax Benefits Which May Be Lost.—If there is an agreement to participate in or cooperate with an international boycott, taxpayers may lose a portion of the foreign tax credit (section 908(a)), of deferral of taxation of earnings of controlled foreign corporations (section 952(a)(3)), and of deferral of taxation of DISC income (section 995(b)(1)(F)).

The loss of tax benefits must be reported on either Schedule A or B (Form 5713), on Schedule C (Form 5713) and on Form 1116 (individuals), Form 1118 (corporations), Form 3646, or Form 1120-DISC.

General Instructions

A. Who Must File.—Except as provided in Instruction F, you must file Form 5713 if you:

1. have operations; or
2. are a member of a controlled group (as defined in section 993(a)(3)), a member of which has operations; or
3. are a United States shareholder (within the meaning of section 951(b)) of a foreign corporation that has operations, but only if you own (within the meaning of section 958(a)) stock of that foreign corporation; or
4. are a partner in a partnership that has operations; or
5. are treated under section 671 as the owner of a trust that has operations

in or related to a boycotting country or with the government, a company, or a national of a boycotting country. However, if you are not a United States person (as defined below), you need not file Form 5713 unless you either claim the benefits of the foreign tax credit under section 901 or own stock of a DISC.

U.S. Person.—A U.S. person includes: a citizen or resident of the United States; a domestic partnership; a domestic corporation; and any estate or trust (other than a foreign estate or foreign trust). (See section 7701(a)(30).)

B. When and Where to File.—File Form 5713 in duplicate when your tax return is due, including extensions. Send one copy to the Internal Revenue Service Center, Philadelphia, PA 19255, and attach the other copy to your income tax return.

C. Boycotting Country.—A boycotting country is any country which is on the list maintained by the Secretary of the Treasury under section 999(b)(4)(A). The list cur-

rently includes Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen Arab Republic and Peoples Democratic Republic of Yemen.

Also, any other country in which you (or a member of the controlled group of which you are a member) have operations and which you know or have reason to know requires any person to participate in or cooperate with an international boycott other than a boycott referred to in section 999(b)(4)(A), (B), or (C) (see instruction F) is a boycotting country.

D. Definition of "Operations."—The term "operations" encompasses all forms of business or commercial activities and transactions (or parts of transactions), whether or not productive of income, including, but not limited to: selling; purchasing; leasing; licensing; banking; financing; and similar activities; extracting; processing; manufacturing; producing; constructing; transporting; performing activities ancillary to the foregoing (e.g., contract negotiating, advertising, site selecting, etc.); and performing services, whether or not ancillary to the foregoing.

You are considered to have operations "in a boycotting country" if you have an operation that is carried on in whole or in part in a boycotting country.

You are considered to have operations "with the government, a company, or a national of a boycotting country" if you have an operation that is carried on outside a boycotting country either for or with the government, a company, or a national of a boycotting country.

You are considered to have operations "related to a boycotting country" if you have an operation that is carried on outside a boycotting country for the government, a company, or a national of a non-boycotting country if you know or have reason to know that specific goods or services produced by the operation are intended for use in a boycotting country, or for use by or for the benefit of, the government, a company, or a national of a boycotting country, or for use in forwarding or transporting to a boycotting country.

E. Boycott Requests.—A boycott request is any request to enter into an agreement that would constitute participation in or cooperation with an international boycott.

F. Special Filing Situations and Waivers Regarding Form 5713.—

1. Controlled Groups.—If you are a member of a controlled group of corporations, you do not have to file Form 5713 if you joined in the filing of a consolidated income tax return and Form 5713 was filed on behalf of all members of the controlled group who joined in the filing of that return. If the consolidated return is not filed on your behalf, you must separately file Form 5713.

Also, you, as a member of a controlled group, do not have to file Form 5713 if, for your taxable year, all four of the following conditions are met: (a) you have no operations in or related to a boycotting country (or with the government, a company, or a national of a boycotting country), and owned no stock, directly or indirectly, of any corporation having such operations; (b) you received no boycott request and owned no stock, directly or indirectly, of any corporation receiving such requests; (c) you are not entitled to (or you forfeit) any benefits of deferral, DISC or the foreign tax credit; and, (d) you attach to your income tax return a certificate signed by a person authorized to sign the tax return of

the common parent of your group stating that Form 5713 was filed on your behalf.

2. Partners.—Generally, if you are a partner in a partnership that has operations in a boycotting country, you are required to file Form 5713. However, if the partnership indicates to you on Schedule K-1 (Form 1065) that it did not participate in or cooperate with an international boycott and that it filed Form 5713 with its Form 1065, then you need not file Form 5713 if you have no operations in or related to a boycotting country, or with the government, a company, or a national of a boycotting country other than the operations that are reported on the Form 5713 filed by the partnership.

3. U.S. Sanctioned Boycotts.—Section 999(b)(4)(A) permits you to meet the requirements imposed by a foreign country with respect to an international boycott if United States law or regulations, or an Executive Order, sanctions participation in or cooperation with that international boycott. You need not report operations that fall within this exception.

4. Prohibition on Importation and Exportation.—Although you may agree to comply with prohibitions on exportation or importation described in section 999(b)(4)(B) and section 999(b)(4)(C) without incurring tax sanctions, you must report the operations under such agreements on Form 5713.

5. Unsolicited Tender Invitations.—If you receive an unsolicited tender invitation which contains a request to participate in or cooperate with an international boycott, you do not have to report the request unless you respond to the invitation.

6. United States Subsidiary or Sister Corporation.—If you are required to file Form 5713 and you are a subsidiary or sister corporation of a foreign corporation that is not required to file Form 5713, you do not have to report the operations, boycott requests, and boycott participation or cooperation of that foreign corporation if you do not claim, or if you forfeit, the benefits of deferral, DISC and the foreign tax credit attributable to: (a) operations related to boycotting countries in connection with which there was participation in or cooperation with an international boycott, and (b) operations in boycotting countries which you cannot clearly demonstrate are clearly separate and identifiable from operations in connection with which there was participation in or cooperation with an international boycott.

If the foregoing conditions are satisfied, and the only reason you are required to file Form 5713 is that your foreign sister or foreign parent has reportable operations in or related to a boycotting country (or with the government, a company, or a national of a boycotting country), then you need not file Form 5713.

This waiver does not relieve you of your obligation to report the operations, boycott requests, and boycott participation or cooperation of yourself, or United States members of your controlled group, and of foreign corporations of which you are a U.S. shareholder. If you are required to report on behalf of a foreign corporation of which you are a U.S. shareholder, you must report all operations, boycott requests, and boycott participation or cooperation of that foreign corporation whether or not they are effectively connected with the conduct of a trade or business in the United States.

7. Foreign Corporations Which Are Required to Report Because of U.S. Branch Operations.—If you are a foreign corporation engaged in operations in the U.S. through a branch and are required to file

Form 5713, you do not have to report the operations, boycott requests, and boycott participation or cooperation of your non-U.S. parent, subsidiaries, or sister corporations and your own operations, boycott requests and boycott participation or cooperation that do not relate to your U.S. branch if you do not claim, or if you forfeit, the benefits of deferral, DISC, and the foreign tax credit attributable to: (a) operations related to boycotting countries in connection with which there was participation in or cooperation with an international boycott; and (b) operations in boycotting countries which you cannot clearly demonstrate are clearly separate and identifiable from operations in connection with which there was participation in or cooperation with an international boycott.

If the foregoing conditions are satisfied, and neither your U.S. branch nor any U.S. member of your controlled group has operations in or related to a boycotting country (or with the government, a company, or a national of a boycotting country), then you need not file Form 5713.

This waiver does not relieve you of your obligation to report all operations, boycott requests, and boycott participation or cooperation of your U.S. branch and of all U.S. members of each controlled group of which you are a member.

Moreover, all the operations, boycott requests, and boycott participation or cooperation of your U.S. branch must be reported even if they relate to the branch's operations that are not effectively connected with a U.S. trade or business. Additionally, if you or any member of a controlled group of which you are a member engages in operations in the United States directly rather than through the U.S. branch, and those operations are also operations in or related to a boycotting country, or with the government, a company, or national of a boycotting country, then you must report those operations, as well as all boycott requests and boycott participation or cooperation relating to those operations.

G. International Boycott Factor and Specifically Attributable Taxes and Income.—If there is participation in or cooperation with an international boycott, you must compute the loss of tax benefits. You may either use the international boycott factor, or you may determine the taxes and income specifically attributable to boycott operations.

If you compute the loss of tax benefits by using the international boycott factor, complete Schedules A and C (Form 5713). If you determine taxes and income specifically attributable to boycott operations, complete Schedules B and C (Form 5713).

Schedules A, B, and C (Form 5713) need not be filed if there was no participation in or cooperation with an international boycott.

DISCs and partnerships need not complete Schedule C. However, they must complete parts of both Schedules A and B, unless all shareholders, or all partners, compute the loss of their tax benefits using the boycott factor exclusively, or the specifically identifiable taxes and income method exclusively. In such cases, the DISC and the partnership need complete only parts of Schedule A or parts of Schedule B.

H. Penalties—Willful Failure to Report.—The willful failure to file Form 5713 may result in fines of \$25,000, imprisonment for not more than one year, or both.

Specific Instructions

Common Taxable Year of Controlled Group.—The taxable year for a controlled group is the same as the common taxable year (from line 4(b)(3)).

1. Individuals.—Enter your adjusted gross income (e.g., for 1978, line 31, Form 1040).

2(c). Partnerships and Corporations.—Enter your principal business activity code number and description. Page 4 of the instructions provides the code list of business activities for corporations and partnerships. Using this list, enter the code number for the specific industry group from which the largest percentage of "total receipts" was derived. On Forms 1120, 1120S, and 1120F, total receipts means gross receipts (Forms 1120 and 1120S, page 1, line 1; and Form 1120F, page 3, line 1) plus all other income (Forms 1120 and 1120S, page 1, lines 4 through 10; and Form 1120F, page 3, lines 4 through 10). For DISCs, "total receipts" means all income (page 1, line 4, Form 1120-DISC). See page 8 of the Instructions for Form 1120-DISC for business activities of a DISC. For partnerships, "total receipts" on Form 1065 means gross receipts (page 1, line 1a) plus all other income (page 1, lines 4 through 11).

2(d). DISCs.—Enter the major product code number and description from Schedule N (Form 1120-DISC), page 1. This is the code number for the major product or service (as measured by export gross receipts) sold or provided by the DISC.

4(b). Common Taxable Year Election.—In general, the common taxable year of the controlled group is the taxable year of the common parent. However, the members of the controlled group may elect the taxable year of any member of the group as the common taxable year. This election is made by entering the name, taxable year and employer identification number of the designated corporation on line 4(b).

All members of a controlled group must consent, in writing, to the common taxable year election. A common parent may consent to the common taxable year election on behalf of all members of the controlled group that join with the common parent in filing a consolidated return. Foreign corporations which are members of a controlled group need not sign the consent if they are not required to report. However, if the foreign corporation subsequently becomes liable to report, then it is bound by the common taxable year election previously made by the group. A copy of the consent must be attached to each member's Form 5713 filed for the first taxable year of such member to which the common taxable year election applies. In the event no common parent exists and no consensus is reached by the members of the controlled group, the common taxable year of the group will be the taxable year of the member of the controlled group whose taxable year ends in the latest month of the calendar year. The taxable year election is a binding election and can be changed only with the approval of the Secretary of the Treasury.

4(c)(1). Corporations.—Enter the amount of total assets (e.g., for 1978 forms, enter):

(a) Form 1120: Schedule L, line 14, col. (D);

(b) Form 1120-DISC: Schedule L, line 3, col. (B);

(c) Form 1120F: Schedule L, line 14, col. (D);

(d) Form 1120S: Schedule L, line 14, col. (D);

(e) Form 1120L: Annual Statement, page 14, line 26 (sum of columns 1 and 2);

(f) Form 1120M: Annual Statement, page 11, line 22 (sum of columns 1 and 2).

4(c)(2). Corporations.—Enter the amount of taxable income before net operating loss and special deductions (e.g., for 1978 forms, enter):

(a) Form 1120: Page 1, line 28;

(b) Form 1120-DISC: Page 1, line 10 (Taxable income before net operating loss deduction and dividends-received deduction);

(c) Form 1120F: Page 3, line 28;

(d) Form 1120S: Page 1, Line 28 (Taxable income);

(e) Form 1120L: Schedule E: Lines 26 plus 21(d) plus 22 (Gain or loss from operations before dividends-received deduction and operations loss deduction);

(f) Form 1120M: Page 1, line 4 plus Schedule B-1, line 25 (Taxable income before unused loss deduction and dividends-received deduction).

6.—Enter the applicable amounts as follows:

(a) Foreign tax credit before adjustment (e.g., line 6, Part III, Schedule B, Form 1118 (Rev. 1-79) (corporations)); or line 6, Schedule D, Form 1116 (Rev. 11-78) (individuals);

(b) Pro rata share of total income of controlled foreign corporation (line 9, Schedule H, Form 3646);

(c) Pro rata share of section 995(b)(1) (F)(i) amount (pro rata share of line 10, Part I, Schedule J, Form 1120-DISC).

Questions 7 Through 13

Filers Who Are Not Members of a Controlled Group.—Your answers to questions 7-13 on Form 5713 must reflect your operations, boycott requests and boycott participation or cooperation for your taxable year. In addition, if you are:

(a) a United States shareholder of a foreign corporation; or

(b) a partner in a partnership; or

(c) treated under section 671 as the owner of a trust,

then your answers to questions 7-13 must also reflect the operations in or related to boycotting countries (or with the government, a company, or a national of a boycotting country), boycott requests, and boycott participation or cooperation of the foreign corporation, partnership, or trust.

When you report on behalf of a foreign corporation as a United States shareholder, report the foreign corporation's operations, boycott requests, and boycott participation or cooperation for the foreign corporation's taxable year that ends with or within your taxable year.

When you report on behalf of a partnership as a partner, report the partnership's operations, boycott requests, and boycott participation or cooperation for the partnership's taxable year that ends with or within your taxable year.

When you report on behalf of a trust as its owner under section 671, report the trust's operations, boycott requests, and boycott participation or cooperation for your taxable year.

Filers Who Are Members of a Controlled Group of Corporations.—If you are a member of a controlled group of corporations, the answers to questions 7-13 on the Form 5713 filed by you for your taxable year must reflect:

- your operations, boycott requests and boycott participation or cooperation (and those of any trust of which you are treated as the owner under section 671) for your taxable year that ends with or within the common taxable year that ends with or within your taxable year (see instruction 4(b));
- the operations, boycott requests and boycott participation or cooperation of each other member of the controlled group (and those of any trust of which a member of the controlled group is treated as the owner under section 671) for each member's taxable year that ends with or within the common taxable year that ends with or within your taxable year;
- the operations, boycott requests and boycott participation or cooperation of each foreign corporation or partnership on whose behalf you are reporting as a United States shareholder or as a partner, for the taxable year of the foreign corporation or the partnership that ends with or within your taxable year that ends with or within the common taxable year that ends with or within your taxable year; and
- the operations, boycott requests and boycott participation or cooperation of each foreign corporation or partnership on whose behalf a member (other than you) of the controlled group is reporting as a United States shareholder or as a partner, for the taxable year of the foreign corporation or the partnership that ends with or within such member's taxable year that ends with or within the common taxable year that ends with or within your taxable year.

The net effect of these reporting requirements is that the answers to questions 7-13 generally are identical for each member of the controlled group and need only be updated on a group basis once a year. The information is updated at the close of the common taxable year, and is reported by each member of the group for its taxable year that ends with or after the common taxable year. If the taxable years of all members, foreign corporations and partnerships coincide with the common taxable year, then all information is reported on a current basis.

If all taxable years do not coincide, then all or some of the information reported will reflect a time period that is out of phase with the reporter's taxable year.

Example.—Assume that Corporations A, B, C and D are all members of a controlled group. Corporation A is the common parent and no common taxable year election is made. Corporations A, B and C report on the basis of a calendar year. Corporation D reports on the basis of a July 1-June 30 taxable year. Corporation C owns 15 percent of Foreign Corporation X. Corporation X reports on the basis of an April 1-March 31 year. Corporations A, B, C, D and X have operations in boycotting countries. The answers to questions 7-13 on the Forms 5713 filed by

Corporations A, B and C for their 1978 taxable years will reflect the operations of Corporations A, B, and C for the 1978 taxable year, the operations of Corporation D for the period July 1, 1977-June 30, 1978, and the operations of Corporation X for the period April 1, 1977-March 31, 1978. The answers to questions 7-13 on the Form 5713 filed by Corporation D for its taxable year ending June 30, 1979 will be identical to those on the Forms 5713 filed by Corporations A, B and C for their taxable years ending December 31, 1978. Thus, the answers to questions 7-13 on the Form 5713 filed by Corporation D for its taxable year ending June 30, 1979 will not reflect any of Corporation D's operations for its July 1, 1978-June 30, 1979 taxable year.

Part I.—Operations in or Related to a Boycotting Country

8. Boycott of Israel.—Question 8 concerns operations in or related to countries on the Secretary's list of countries associated in the boycott of Israel (or with the governments, companies, or nationals of those countries). Use a separate line for each country or each person having operations in that country, but do not use separate lines for separate operations by the same person in the same country.

Column (2).—Enter the taxpayer identifying number of each person having operations in or related to any of the listed countries. Include the taxpayer identifying number of all members of your controlled group which have operations in or related to the listed countries.

Additionally, if you or a member of your controlled group is the United States shareholder of a foreign corporation which has operations in or related to the listed countries (or with the governments, companies, or nationals of those countries), enter your employer identification number or the employer identification number of the member of your group who is the United States shareholder, and in parentheses enter the name and employer identification number, if available, of the foreign corporation having the operation in or related to the listed countries.

Column (3).—Enter the principal business activity code number (see page 4) of the person having operations.

Column (4).—Enter a brief description of the principal business activity.

Column (5).—If you are a DISC, enter the product code. (See instructions for Schedule N (Form 1120-DISC).)

9. Non-listed Countries Boycotting Israel.—If the answer to question 9 is "Yes," use the same procedure outlined in the instructions for question 8 for any non-listed countries which you know or have reason to know require participation in or cooperation with the international boycott of Israel.

10. Boycotts of Countries Other Than Israel.—If the answer to question 10 is "Yes," use the same procedure outlined in the instructions for question 8 for any international boycott other than the boycott of Israel.

11. Boycott Requests.—If you receive a substantial number of similar requests, you may attach a copy of one of these requests and attach a statement stating the number and nature of all other requests received.

12. Boycott Agreements.—If a substantial number of boycott agreements were entered into or were effective for the period covered by the report, and the boycott clauses are similar, you may attach a sample boycott clause and attach a state-

ment stating the number and general nature of all other boycott clauses and agreements entered into. An agreement to participate in or cooperate with an international boycott continues for the entire period for which it is in effect and must be reported every year that it is in effect. Thus, a boycott agreement that continues over a three year period must be reported as participation in or cooperation with an international boycott in each of those three years.

Part II.—Requests for and Acts of Participation in or Cooperation With an International Boycott

13(a).—Check "Yes" for any requests received or agreements entered into or continuing in effect during the period covered by the report with respect to any international boycott not excluded in instruction F-3. If no requests were received and no agreements were entered into or in effect, enter "No."

13(b).—Use a separate line for each country, each person, and each type of participation or cooperation, but do not use separate lines for similar types of participation or cooperation by the same person in the same country.

Column (2).—Enter the taxpayer identifying number of the person receiving the request or having the agreement.

Column (3).—Enter the principal business activity code number (see page 4) of the person receiving the request or having the agreement.

Column (4).—Enter a brief description of the principal business activity of the person receiving the request or having the agreement (see page 4).

Column (5).—If you are a DISC, enter the product code. (See the instructions for Schedule N (Form 1120-DISC).)

Column (7).—Enter the number codes listed below which indicate the type of participation or cooperation requested.

Column (9).—Enter the number codes listed below which indicate the type of participation or cooperation agreed to.

Number Code	Type of Participation or Cooperation Requested or Agreed to
01 . . .	Refrain from doing business with or in a country which is the object of the boycott or with the government, companies, or nationals of that country.
02 . . .	Refrain from doing business with any United States person engaged in trade in a country which is the object of the boycott or with the government, companies, or nationals of that country.
03 . . .	Refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion.
04 . . .	Refrain from employing individuals of a particular nationality, race, or religion.
05 . . .	As a condition of the sale of a product to the government, a company or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased or operated by a person who does not participate in or cooperate with an international boycott.

Codes for Principal Business Activity

These industry titles and definitions are based, in general, on the Enterprise Standard Industrial Classification System developed by the Office of Management and Budget, Executive Office of the President, to classify enterprises by type of activity in which they are engaged. The system follows closely the Standard

Industrial Classification used to classify establishments.

Using the list below, enter the code for the specific industry group from which the largest percentage of "total receipts" is derived. For an explanation of the procedure used to determine total receipts, see instructions for line 2(c).

AGRICULTURE, FORESTRY, AND FISHING

Code
0400 Agricultural production.
0600 Agricultural services, forestry, fishing, hunting, and trapping.

MINING

Metal Mining:
1010 Iron ores.
1070 Copper, lead and zinc, gold and silver ores.
1098 Other metal mining.
1150 Coal mining.
Oil and gas extraction:
1330 Crude petroleum, natural gas, and natural gas liquids.
1380 Oil and gas field services.
Nonmetallic minerals (except fuels) mining:
1430 Dimension, crushed and broken stone; sand and gravel.
1498 Other nonmetallic minerals, except fuels.

CONSTRUCTION

General building contractors and operative builders:
1510 General building contractors.
1531 Operative builders.
Heavy construction contractors:
1611 Highway and street construction.
1620 Heavy construction, except highway.
Special trade contractors:
1711 Plumbing, heating, and air conditioning.
1721 Painting, paperhanging, and decorating.
1731 Electrical work.
1740 Masonry, stonework, and plastering.
1750 Carpentering and flooring.
1761 Roofing and sheet metal work.
1771 Concrete work.
1781 Water well drilling.
1790 Miscellaneous special trade contractors.

MANUFACTURING

Food and kindred products:
2010 Meat products.
2020 Dairy products.
2030 Preserved fruits and vegetables.
2040 Grain mill products.
2050 Bakery products.
2060 Sugar and confectionery products.
2081 Malt liquors and malt.
2088 Alcoholic beverages, except malt liquors and malt.
2089 Bottled soft drinks, and flavorings.
2096 Other food and kindred products.
2100 Tobacco manufacturers.

Textile mill products:
2228 Weaving mills and textile finishing.
2250 Knitting mills.
2298 Other textile mill products.

Apparel and other textile products:
2315 Men's and boy's clothing.
2345 Women's and children's clothing.
2388 Hats, caps, millinery, fur goods, and other apparel and accessories.
2390 Misc. fabricated textile products.

Lumber and wood products, except furniture:
2415 Logging camps and logging contractors, sawmills and planing mills.
2430 Millwork, plywood, and related products.
2498 Other wood products, including wood buildings and mobile homes.
2500 Furniture and fixtures.

Paper and allied products:
2625 Pulp, paper, and board mills.
2699 Other paper products.

Printing, publishing, and allied industries:
2710 Newspapers.
2720 Periodicals.
2735 Books, greeting cards, and misc. publishing.
2799 Commercial and other printing, and printing trade services.

Chemicals and allied products:
2815 Industrial chemicals, plastics materials and synthetics.
2830 Drugs.
2840 Soap, cleaners, and toilet goods.
2850 Paints and allied products.
2898 Agricultural and other chemical products.

Petroleum refining and related industries (including those integrated with extraction):
2910 Petroleum refining (including those integrated with extraction).
2998 Other petroleum and coal products.

Rubber and misc. plastics products:
3050 Rubber products; plastics footwear, hose and belting.
3070 Misc. plastics products.

Leather and leather products:
3140 Footwear, except rubber.
3198 Other leather and leather products.

Code

Stone, clay, glass, and concrete products:
3225 Glass products.
3240 Cement, hydraulic.
3270 Concrete, gypsum, and plaster products.
3298 Other nonmetallic mineral products.
Primary metal industries:
3370 Ferrous metal industries; misc. primary metal products.
3380 Nonferrous metal industries.
Fabricated metal products, except machinery and transportation equipment:
3410 Metal cans and shipping containers.
3428 Cutlery, hand tools, and hardware; screw machine products, bolts, and similar products.
3430 Plumbing and heating, except electric and warm air.
3440 Fabricated structural metal products.
3460 Metal forgings and stampings.
3470 Coating, engraving, and allied services.
3480 Ordnance and accessories, except vehicles and guided missiles.
3490 Misc. fabricated metal products.
Machinery, except electrical:
3520 Farm machinery.
3530 Construction, mining, and materials handling machinery and equipment.
3540 Metalworking machinery.
3550 Special industry machinery, except metalworking machinery.
3560 General industrial machinery.
3570 Office, computing, and accounting machines.
3598 Engines and turbines, service industry machinery, and other machinery, except electrical.

Electrical and electronic machinery, equipment and supplies:
3630 Household appliances.
3665 Radio, television, and communication equipment.
3670 Electronic components and accessories.
3698 Other electric equipment.

Transportation equipment:
3710 Motor vehicles and equipment.
3725 Aircraft, guided missiles and parts.
3730 Ship and boat building and repairing.
3798 Other transportation equipment.
Measuring and controlling instruments; photographic and medical goods, watches and clocks:
3815 Scientific instruments and measuring devices; watches and clocks.
3845 Optical, medical, and ophthalmic goods.
3860 Photographic equipment and supplies.
3998 Other manufacturing products.

TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS, AND SANITARY SERVICES

Transportation:
4000 Railroad transportation.
4100 Local and interurban passenger transit.
4200 Trucking and warehousing.
Other transportation including transportation services:
4400 Water transportation.
4500 Transportation by air.
4722 Passenger transportation arrangement.
4723 Freight transportation arrangement.
4799 Other transportation services.

Communication:
4825 Telephone, telegraph, and other communication services.
4830 Radio and television broadcasting.
Electric, gas, and sanitary services:
4910 Electric services.
4920 Gas production and distribution.
4930 Combination utility services.
4990 Water supply and other sanitary services.

WHOLESALE TRADE

Durable
5008 Machinery, equipment, and supplies.
5010 Motor vehicles and automotive equipment.
5030 Lumber and construction materials.
5050 Metals and minerals, except petroleum and scrap.
5060 Electric goods.
5070 Hardware, plumbing and heating equipment.
5098 Other durable goods.
Nondurable
5110 Paper and paper products.
5129 Drugs, chemicals, and allied products.
5130 Apparel, piece goods, and notions.
5140 Groceries and related products.
5150 Farm-product raw materials.
5170 Petroleum and petroleum products.
5180 Alcoholic beverages.
5190 Misc. nondurable goods.

RETAIL TRADE

Code
Building materials, hardware, garden supply, and mobile home dealers:
5220 Building materials dealers.
5251 Hardware stores.
5265 Garden supplies and mobile home dealers.
5300 General merchandise stores.
5400 Food stores.

Automotive dealers and service stations:
5515 Motor vehicle dealers.
5541 Gasoline service stations.
5598 Other automotive dealers.
5600 Apparel and accessory stores.
5700 Furniture and home furnishings stores.
5800 Eating and drinking places.

Misc. retail stores:
5912 Drug stores and proprietary stores.
5921 Liquor stores.
5995 Other misc. retail stores.

FINANCE, INSURANCE, AND REAL ESTATE

Banking:
6030 Mutual savings banks.
6060 Bank holding companies.
6090 Banks, except mutual savings banks and bank holding companies.

Credit agencies other than banks:
6120 Savings and loan associations.
6140 Personal credit institutions.
6150 Business credit institutions.
6199 Other credit agencies.

Security, commodity brokers, dealers, exchanges, and services:
6210 Security brokers, dealers, and flotation companies.
6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services.

Insurance:
6355 Life insurance.
6356 Mutual insurance, except life or marine and certain fire or flood insurance companies.
6359 Other insurance companies.
6411 Insurance agents, brokers, and services.

Real Estate:
6511 Real estate operators (except developers) and lessors of buildings.
6516 Lessors of mining, oil, and similar property.
6518 Lessors of railroad property and other real property.
6530 Condominium management and cooperative housing associations.
6550 Subdividers and developers.
6599 Other real estate.

Holding and other investment companies:
6742 Regulated investment companies.
6743 Real estate investment trusts.
6744 Small business investment companies.
6749 Holding and other investment companies, except bank holding companies.

SERVICES

7000 Hotels and other lodging places.
7200 Personal services.
Business services:
7310 Advertising.
7340 Services to buildings.
7370 Computer and data processing services.
7392 Management, consulting, and public relations services.
7394 Equipment rental and leasing.
7398 Other business services.

Auto repair and services; misc. repair services:
7500 Auto repair and services.
7600 Misc. repair services.

Amusement and recreational services:
7812 Motion picture production, distribution, and services.
7830 Motion picture theaters.
7900 Amusement and recreation services, except motion pictures.

Other services:
8015 Offices of physicians, including osteopathic physicians.
8021 Offices of dentists.
8050 Nursing and personal care facilities.
8071 Medical laboratories.
8099 Other medical services.
8111 Legal services.
8200 Educational services.
8911 Engineering and architectural services.
8932 Certified public accountants.
8933 Other accounting, auditing, and book-keeping services.
8999 Other services, not elsewhere classified.

SCHEDULE A
(Form 5713)

(Rev. October 1979)

Department of the Treasury
Internal Revenue Service

**Computation of the International
Boycott Factor (Section 999(c)(1))**

(To be completed only by persons not computing loss of tax benefits by the
specifically attributable taxes and income method on Schedule B (Form 5713).)

► Attach to Form 5713.

► See Instructions on Back.

Name

Taxpayer identifying number

Name of country being boycotted (check one):

☐ Israel

☐ Other (Identify) ►

Name of country (1)	Purchases, sales, and payroll attributable to boycotting operations, by operation		
	Boycott purchases (2)	Boycott sales (3)	Boycott payroll (4)
(a)			
(b)			
(c)			
(d)			
(e)			
(f)			
(g)			
(h)			
(i)			
(j)			
(k)			
(l)			
(m)			
(n)			
(o)			
Totals			

1 Numerator of boycott factor (add totals of columns (2), (3), and (4))

2 Denominator of boycott factor:

(a) Total purchases from countries other than United States

(b) Total sales to or from countries other than United States

(c) Total payroll paid or accrued for services performed in countries other
than United States

(d) Total of lines 2(a), (b), and (c)

3 International boycott factor (line 1 over line 2(d)). Enter here and on Schedule C (Form 5713) (see
instructions) ►

Note: If you are involved in any boycott other than the boycott reported on this schedule, complete a separate Schedule A for each
separate boycott and attach to Form 5713.

General Instructions

A. General Information.—Schedule A (Form 5713) is to be completed only by persons who report acts of participation in or cooperation with an international boycott and who do not choose to compute the loss of tax benefits by the specifically attributable taxes and income method on Schedule B (Form 5713).

The international boycott factor reflects not only the purchases, sales, and payroll of the person filing Schedule A, but also those of each member of the controlled group (within the meaning of section 993(a)(3)) of which that person is a member. In addition, for purposes of computing the international boycott factor, a person is deemed to have a pro rata share of the purchases, sales, and payroll of each partnership of which it is a partner, and of each trust of which it is treated as the owner under section 671. Thus, a person's international boycott factor may also reflect purchases, sales, and payroll of a partnership or a trust.

To determine the relevant taxable years for which a person filing Schedule A must report the purchases, sales, and payroll of members of controlled groups, partnerships, and trusts, see the rules set forth in the specific instructions to questions 7-13 of Form 5713.

B. Members of Controlled Groups.—Because the international boycott factor of a person reflects the purchases, sales, and payroll not only of that person but also of each member of the controlled group of which that person is a member, all members of a controlled group generally share a single, common international boycott factor. However, the international boycott factor of a person that is a member of two or more controlled groups will reflect the purchases, sales, and payroll of that person and of all other members of the two or more controlled groups of which that person is a member.

C. Presumption.—Generally, one act of participation in or cooperation with an international boycott by a person will taint all the operations of that person and of each member of the controlled group of which that person is a member in each country that is associated with a group of countries in carrying out that particular international boycott unless rebutted as explained below. The effect of this taint is that all purchases, sales, and payroll attributable to all operations in boycotting countries for which the taint is not rebutted must be included in the numerator of the international boycott factor.

The presumption of boycott participation or cooperation is rebutted for a particular operation if it is clearly demonstrated that that operation is a clearly separate and identifiable operation in connection with which there was no participation in or cooperation with an international boycott. Since the presumption applies only to operations in countries associated in carrying out an international boycott, the presump-

tion need not be rebutted for operations outside (but related to) those countries. If the presumption is rebutted with respect to a particular operation or does not apply to a particular operation, then the purchases, sales, and payroll attributable to that operation are not reflected in the numerator of the international boycott factor. They will, however, be reflected in the denominator.

D. Boycotting Operations.—For purposes of computing the international boycott factor, all operations that are not in boycotting countries but in connection with which there is participation in or cooperation with an international boycott are considered boycotting operations. In addition, all operations that are in boycotting countries, other than those operations for which the presumption of boycott participation or cooperation has been rebutted in accordance with General Instruction C, are considered boycotting operations.

However, operations that would be considered boycotting operations in accordance with the preceding paragraph will not be considered boycotting operations if they are carried out in accordance with the terms of a binding contract entered into before September 2, 1976 and are completed on or before December 31, 1977.

E. Numerator of International Boycott Factor.—To compute the international boycott factor, you must first identify those operations that are boycotting operations within the meaning of General Instruction D. Once those boycotting operations have been identified, the following purchases, sales, and payroll attributable to those boycotting operations are included in the numerator of the international boycott factor:

- (i) Purchases made from boycotting countries,
- (ii) Sales made to or from boycotting countries, and
- (iii) Payroll paid or accrued for services performed in boycotting countries.

Transitional Rule.—The following transitional rule applies in determining the numerator of the international boycott factor.

In the case of a boycotting operation carried out in accordance with the terms of a binding contract entered into before September 2, 1976, that continues after December 31, 1977, only a portion of the purchases, sales, and payroll attributable to that operation is included in the numerator of the international boycott factor. The amount included is the total of such purchases, sales, and payroll multiplied by a fraction, the numerator of which is the number of days in the taxable year of the person having the operation (or the common taxable year if applicable) remaining after December 31, 1977, and the denominator of which is the number of days in the taxable year.

F. Denominator of International Boycott Factor.—The denominator of the interna-

tional boycott factor will reflect all purchases, sales, and payroll of a person (and, if applicable, of members of a controlled group, partnerships, and trusts) in or related to all countries other than the United States.

G. Partnerships.—Since tax benefits are denied to partners, not partnerships, partnerships need complete only lines (a) through (o), the totals of column(s) (2), (3) and (4), and line 2. This information must be supplied to each partner so that each may compute his own international boycott factor.

Specific Instructions

Compute a separate boycott factor and complete a separate Schedule A for each particular international boycott. Supply the relevant information for your operations and, if applicable, the operations of partnerships, trusts, and members of your controlled group.

Column (1).—Enter, for each boycotting operation, the name of a country on the list maintained by the Secretary under section 999(a)(3) (or any other country that you know or have reason to know requires participation in or cooperation with an international boycott) to which your international boycott operation relates. For example, if you have an operation in Country Z (which is not a boycotting country) and the operation relates to Country X (which is a boycotting country), enter the name of Country X.

Column (2).—Enter, for each boycotting operation, the amount of all purchases that are attributable to that operation and that are made from boycotting countries. (See General Instruction E.)

Column (3).—Enter, for each boycotting operation, the amount of all sales that are attributable to that operation and that are made to or from boycotting countries. (See General Instruction E.)

Column (4).—Enter, for each boycotting operation, the amount of all payroll that is attributable to that operation and that is paid or accrued for services performed in boycotting countries. (See General Instruction E.)

Line 3.—Enter the international boycott factor from line 3 on the appropriate line of Schedule C (Form 5713) as follows:

If you are reducing your foreign tax credit (section 903(a)), enter the amount from line 3 on line 2(a)(2) of Schedule C (Form 5713);

If you are being denied a deferral of taxation of income under subpart F (section 952(a)(3)), enter the amount from line 3 on line 3(a)(4) of Schedule C (Form 5713); or

If you are being denied a deferral of taxation of DISC income (section 995(b)(1)(F)), enter the amount from line 3 on line 4(a)(2) of Schedule C (Form 5713).

SCHEDULE B
(Form 5713)

(Rev. April 1978)
Department of the Treasury
Internal Revenue Service

Specifically Attributable Taxes and Income (Section 999(c)(2))

(To be completed only by persons not computing loss of tax benefits by the international boycott factor on Schedule A (Form 5713).)

▶ Attach to Form 5713.

▶ See Instructions on Back.

Name

Taxpayer identifying number

Name of country being boycotted

☐ Israel

☐ Other (identify) ▶

Specifically Attributable Taxes and Income by Operation (Use a separate line for each operation)

	Name of Country (1)	Principal business activity		Foreign tax credit attributable to boycott operations (4)	Subpart F Income Prorata share of International boycott income (5)	DISC Income Taxable income attributable to boycott operations (6)
		Code (2)	Description (3)			
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15	Total					

Note: If you are involved in more than one international boycott, use a separate Schedule B (Form 5713) to compute the specifically attributable taxes and income for each boycott.

General Instructions

A. General Information.—Schedule B (Form 5713) is to be completed only by persons who report acts of participation in or cooperation with an international boycott and who do not choose to compute the loss of tax benefits by applying the international boycott factor on Schedule A (Form 5713). Taxpayers using the specifically attributable taxes and income method for computing the loss of tax benefits are to report taxes and income for the period covered by their own income tax return. Under the specific attribution method, taxes and income are reported on this schedule on an individual basis and not for all members of the controlled group.

Since the benefits of deferral, DISC, and the deemed paid tax credits under section 902 are denied at the shareholders' level, shareholders of a DISC and of a foreign corporation must report on this schedule their pro-rata shares of the income of the DISC and of the foreign corporation that would have been deferrable, and the foreign taxes of the foreign corporation that would have been creditable, had there been no participation in or cooperation with an international boycott.

B. Presumption.—Generally, one act of participation in or cooperation with an international boycott by a person will taint all the operations of that person and of each member of the controlled group (as defined in section 993(a)(3)) of which that person is a member in each country that is associated with a group of countries in carrying out that particular international boycott unless rebutted as explained below. The effect of this taint is that the benefits of DISC, deferral, and the foreign tax credit attributable to all operations in boycotting countries for which the taint is not rebutted will be denied.

The presumption of boycott participation or cooperation is rebutted for a particular operation if it is clearly demonstrated that that operation is a clearly separate and identifiable operation in connection with which there was no participation in or cooperation with an international boycott. Since the presumption applies only to operations in countries associated in carrying out an international boycott, the presumption need not be rebutted for operations outside (but related to) those countries. If the presumption is rebutted with respect to a particular operation or does not apply to a particular operation, then the tax benefits resulting from that operation will not be lost.

C. Boycotting Operations.—For purposes of determining the tax benefits denied under the specifically attributable taxes and income method, all operations that are not in boycotting countries but in connection with which there is participation in or cooperation with an international boycott are considered boycotting operations. In addition, all operations that are in boycotting countries, other than those operations for which the presumption of boycott participation or cooperation has been rebutted in accordance with General Instruction B, are considered boycotting operations.

However, operations that would be considered boycotting operations in accordance with the preceding paragraph will not be considered boycotting operations if:

(i) they are completed before November 4, 1976, or

(ii) they are carried out in accordance with the terms of a binding contract entered into before September 2, 1976, and are completed on or before December 31, 1977.

D. Determination of Specifically Attributable Taxes and Income.—To compute the loss

of tax benefits under the specifically attributable taxes and income method, you must first identify those operations that are boycotting operations within the meaning of General Instruction C. Once those boycotting operations have been identified, the following tax benefits are denied:

(i) **DISC.**—The deferral of taxation of the taxable income of the DISC that is attributable to boycotting operations is denied. The shareholder of the DISC is treated as having received a distribution of his pro-rata share of one-half of the excess of the taxable income of the DISC for the taxable year, before reduction for any distributions during the year, over the sum of the amounts deemed distributed for the taxable year under subparagraphs (A), (B), (C), (D) and (E) of section 995(b)(1), to the extent that such income is attributable to boycotting operations.

(ii) **Deferral.**—The deferral of taxation of the income of controlled foreign corporations that is attributable to boycotting operations is denied. A United States shareholder of a controlled foreign corporation is required to take into gross income his pro-rata share of the income of the controlled corporation that is attributable to boycotting operations and that is not otherwise included in gross income under section 951 or excluded from subpart F income under section 952(b). In computing the amount of boycott income included in the gross income of the United States shareholder, a reasonable allowance may be made for deductions (including foreign taxes) properly allocable to that income.

(iii) **Foreign Tax Credit.**—The portion of the foreign tax credit for foreign taxes paid, accrued, or deemed paid attributable to boycotting operations is denied. See Part N of the Treasury Department's International Boycott Guidelines for the computation of the portion of the foreign tax credit that is denied.

Transitional Rules.—The following transitional rules apply in determining the tax benefits denied under the specifically attributable taxes and income method:

(a) In the case of a boycotting operation not described in (b) below that began before November 4, 1976, but continues after that date, only a pro-rata portion of the benefits of deferral, DISC, and the foreign tax credit attributable to that operation is denied. The amount of benefits denied is the amount of such benefits that would be denied under (i) through (iii) above, multiplied by a fraction, the numerator of which is the number of days in the taxable year of the person engaging in the boycotting operation that remain after November 3, 1976, and the denominator of which is the number of days in that person's taxable year. (For example, in the case of a shareholder of a DISC computing the loss of DISC benefits resulting from a boycotting operation of a DISC that began before November 4, 1976 but continued after that date, the numerator of the fraction is the number of days in the DISC's taxable year that remain after November 3, 1976. If that shareholder also owns stock of a second DISC or of a controlled foreign corporation that has a taxable year that differs from that of the first DISC, the benefits of DISC or deferral that are denied for the boycotting operations of the second DISC or of the controlled foreign corporation are computed by using as the numerator of the fraction the number of days of the taxable year of the second DISC or the controlled foreign corporation that remain after November 3, 1976.)

(b) In the case of a boycotting operation carried out in accordance with the terms of a binding contract entered into before September 2, 1976, that continues after December 31, 1977, only a pro-rata portion of the bene-

fits of deferral, DISC, and the foreign tax credit attributable to that operation is denied. The amount of benefits denied is the amount of such benefits that would be denied under (i) through (iii) above, multiplied by a fraction, the numerator of which is the number of days in the taxable year of the person engaging in the boycotting operation that remain after December 31, 1977, and the denominator of which is the number of days in that person's taxable year. (The examples in (a) above, apply, except that "December 31, 1977" is substituted for "November 3, 1976.")

Specifically Attributable Taxes and Income by Operation

Column (1).—Enter, for each boycotting operation, the name of a country on the list maintained by the Secretary under section 999(a)(3) (or any other country that you know or have reason to know requires participation in or cooperation with an international boycott) to which your international boycott operation relates. For example, if you have an operation in Country Z (which is not a boycotting country) and the operation relates to Country X (which is a boycotting country), enter the name of Country X.

Column (2).—Enter, for each boycotting operation, the principal business activity code (see page 4 of instructions for Form 5713).

Column (3).—Enter, for each boycotting operation, a brief description of the principal business activity.

DISCs.—Enter, for each boycotting operation, in parentheses, the product code and description. (See Instructions for Schedule N (Form 1120-DISC).)

Column (4).—Enter, for each boycotting operation, the amount of foreign taxes paid, accrued, or deemed paid (other than foreign taxes otherwise disallowed by reason of the provisions of sections 901-907, 911, 1503 (b), or 6038) that is attributable to that boycotting operation. (See Part N of the Treasury Department's International Boycott Guidelines.)

Enter this amount on line 2(b), Schedule C (Form 5713).

Column (5).—Enter, for each boycotting operation, your pro-rata share of the income of the controlled foreign corporation (other than income attributable to earnings and profits of the foreign corporation included in gross income under section 951 (other than by reason of section 952(a)(3)) or excluded from Subpart F income under section 952 (b)) that is attributable to that boycott operation. In computing your pro-rata share of the boycott income of a controlled foreign corporation, a reasonable allowance may be made for deductions (including foreign taxes) properly allocable to that income.

Enter this amount on line 3(b), Schedule C (Form 5713).

Column (6).—Enter, for each boycotting operation, your pro-rata share of one-half of the excess of the taxable income of the DISC for the taxable year, before reduction for any distributions during the year, over the sum of the amounts deemed distributed for the taxable year under subparagraphs (A), (B), (C), (D), and (E) of section 995(b)(1), that is attributable to that boycott operation. The taxable income of the DISC attributable to that boycotting operation is the gross income of the DISC for the taxable year specifically attributable to that operation minus the deductions which are properly apportioned or allocated to such income.

Enter this amount on line 4(b), Schedule C (Form 5713).

SCHEDULE C**(Form 5713)**

(Rev. April 1978)

Department of the Treasury
Internal Revenue Service**Tax Effect of the International Boycott Provisions**

▶ Attach to Form 5713. ▶ See Instructions on Back.

Name

Taxpayer identifying number

1 Method used in computing loss of tax benefits under sections 908(a), 952(a)(3) and 995(b)(1)(F) (check one):

- (a) International boycott factor ▶ ☐
- (b) Identification of specifically attributable taxes and income ▶ ☐

2 Reduction of foreign tax credit (section 908(a)):

- (a) International boycott factor method (to be completed by persons checking box 1(a) above and answering "Yes," to foreign tax credit question (line 7(d), Form 5713))—

(1) Foreign tax credit before adjustment (line 6, Part III, Schedule B, Form 1118 (corporations); or line 6, Schedule D, Form 1116 (individuals))

(2) International boycott factor (from Schedule A (Form 5713), line 3)

(3) Reduction of foreign tax credit (multiply line 2(a)(1) by line 2(a)(2)). Enter here and on line 7, Part III, Schedule B, Form 1118 (corporations); or enter here and on line 7, Schedule D, Form 1116 (individuals)

(4) Adjusted foreign tax credit (subtract line 2(a)(3) from line 2(a)(1))

- (b) Specific identification of taxes and income method (to be completed by persons checking box 1(b) above and answering "Yes," to foreign tax credit question (line 7(d), Form 5713)). Enter the amount of foreign taxes paid, accrued, or deemed paid (other than foreign taxes otherwise disallowed by reason of the provisions of sections 901-907, 911, 1503(b), or 6038) that is attributable to boycotting operations. (From line 15, column (4), Schedule B (Form 5713))

Note: Enter the appropriate amount of disallowed boycott taxes on line 3, Part II, Schedule B, of all applicable Form(s) 1118 (corporations); or enter the appropriate amount of disallowed boycott taxes in column 5, Schedule B, of all applicable Form(s) 1116 (individuals).

3 Denial of deferral under Subpart F (section 952(a)(3)):

- (a) International boycott factor method (to be completed by persons checking box 1(a) above and answering "Yes," to controlled foreign corporation question (line 7(b), Form 5713))—

(1) Pro rata share of total income of controlled foreign corporations (line 9, Schedule H, Form 3646) .

(2) Less pro rata share of income attributable to earnings and profits of controlled foreign corporations included in income under sections 951(a)(1)(A)(ii), 951(a)(1)(A)(iii), 951(a)(1)(B), 952(a)(1), 952(a)(2), 952(a)(4), and 952(b)

(3) Subtract line 3(a)(2) from line 3(a)(1)

(4) International boycott factor (from Schedule A (Form 5713), line 3)

(5) Pro rata share of Subpart F international boycott income (multiply line 3(a)(3) by line 3(a)(4)). Enter here and on line 5, Schedule B, Form 3646

- (b) Specific identification of taxes and income method (to be completed by persons checking box 1(b) above and answering "Yes," to controlled foreign corporation question (line 7(b), Form 5713)). Enter pro rata share of total income of controlled foreign corporations (other than income attributable to earnings and profits of foreign corporations included in gross income under section 951 (other than by reason of section 952(a)(3)) and other than amounts excluded from Subpart F income by section 952(b)) that is attributable to boycotting operations. (From line 15, column (5), Schedule B (Form 5713)) (Enter this amount on line 5, Schedule B, Form 3646)

4 Denial of DISC benefits (section 995(b)(1)(F)):

- (a) International boycott factor method (to be completed by persons checking box 1(a) above and answering "Yes," to DISC question (line 7(c), Form 5713))—

(1) Pro rata share of section 995(b)(1)(F)(i) amount. (Pro rata share of line 10, Part I, Schedule J, Form 1120-DISC)

(2) International boycott factor (from Schedule A (Form 5713), line 3)

(3) Pro rata share of DISC international boycott income (multiply line 4(a)(1) by line 4(a)(2)). (See instructions.)

- (b) Specific identification of taxes and income method (to be completed by persons checking box 1(b) above and answering "Yes," to DISC question (line 7(c), Form 5713)). Enter pro rata share of one-half of the excess of the taxable income of the DISC for the taxable year, before reduction for any distributions during the year, over the sum of the amounts deemed distributed for the taxable year under subparagraphs (A), (B), (C), (D), and (E) of section 995(b)(1), that is attributable to boycotting operations. (From line 15, column (6), Schedule B (Form 5713)) (Enter this amount on line 11, Part I, Schedule J, Form 1120-DISC)

General Instructions

(Partnerships and DISCs need not complete Schedule C (Form 5713). However, partners and shareholders in DISCs must complete Schedule C (Form 5713).)

Application of the International Boycott Factor and Specifically Attributable Taxes and Income As Applied to Controlled Groups.—Unless a consolidated return is filed, each member of a controlled group (within the meaning of section 993(a)(3)) may independently choose either to apply the international boycott factor under section 999(c)(1) or to identify specifically attributable taxes and income under section 999(c)(2). The method chosen by each member for determining the loss of tax benefits must be applied consistently by that member to determine its loss of tax benefits.

For example, if a member chooses to use the international boycott factor, then it must apply the international boycott factor to determine its loss of the section 902 indirect foreign tax credit in respect of a dividend paid to it by another member of the controlled group, even if that other member determines its loss of tax benefits by identifying specifically attributable taxes and income.

Thus, if a person applies the international boycott factor to one operation during the taxable year, the factor must be applied to all operations of that person during the taxable year under each of sections 908(a), 952(a)(3), and 995(b)(1)(F).

Further, if a person identifies specifically attributable taxes and income under section 999(c)(2), that method must be applied to all operations of that person during the taxable year under sections 908(a), 952(a)(3), and 995(b)(1)(F).

In the case of a DISC whose taxable year does not coincide with the common taxable year of the controlled group of which it is a member, it is not necessary that the DISC amend its return to show on Schedule J the amount of DISC benefits lost because of boycott participation. Since the benefits of DISC are lost at the shareholder level, the shareholder must include in income the pro rata share of income attributable to boycott operations shown on line 4(a)(3).



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